CEO Transitions: When Is It Time to Go?

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When is time to go?

Chief Executive Officers, and their boards, think about this question far more than most people would probably believe. The question also has different variations, notably: will I go on my own terms or be pushed out?

CEOs transition out in all kinds of circumstances. The fact of it is that the tenure in the job is relatively short. Perhaps three to four years on average at many publicly held corporations with institutional-level shareholders. For the most part the departures are planned which enables a carefully orchestrated transition. These become standard operating procedure communications and investor relations exercises.

And then there are the special situations: a crisis of some kind that leaves the board with little choice but to require the CEO's resignation; an acquisition or merger that leaves only one CEO standing in the new, combined entity; the unanticipated and thus unplanned departures for personal reasons; and even the sudden and tragic death of a CEO.

We're reminded of the complexity of these situations by the resignation last year of Wells Fargo Chairman and CEO John Stumpf. Few CEOs in financial services, with the exception of Jamie Dimon of J.P. Morgan Chase, have had longer, more distinguished careers at the helm of a major U.S. financial institution. Stumpf famously and deftly navigated Wells Fargo through the Great Financial Crisis, an event that eviscerated many a Wall Street C-Suite.

The images of his demise are vivid: there Stumpf was taking a brow-beating from Congress like no other CEO has had to endure since Goldman Sachs' drubbing post-GFC and when Big Tobacco CEO's lined up to lie about the addictive powers of tobacco. Stumpf's answers seemed hollow in the circumstances. Shortly after that appearance he wasn't in the job anymore. A long, distinguished career suddenly ended in disgrace.

Whether he left on his own or was pushed out by the board doesn't matter. In one sense, we can see it as less a business decision than a reputational one. Wells Fargo's business will be fine (although its credit card sales practices will change) and the penalties it paid the government were no more than a rounding error on profits. He was fired because it was the best path towards repairing the bank's reputation, a process that will take years to accomplish.

Herein, a communications map of CEO transitions, the ones that are planned, the ones that aren't, and the ones that we wish would never have happened:

Don't Let the Door Hit You on the Way Out

Stumpf's departure will be studied in business and law schools for years to come. What he knew and when he knew it, what he did about the systematic fraud against the bank's customers, or should have done, and how, will also be debated and litigated at great cost in legal fees to Wells Fargo.

It reminds us of Bob Diamond's inelegant "resignation" from Barclay's after the Bank of England's hearing on the bank's role in manipulating Libor. Then there was Tony Hayward's not so gentle nudge from BP after the oil spill in the Gulf of Mexico. And Angelo Mozilo's firing from Countrywide, where the door, almost literally, did hit him on the backside. Maybe even Steve Jobs' being pushed out of Apple pre-iPod days.

None of them wanted to go but they had little choice. The damage to the corporate reputation of each organization varied. Apple locked itself into a position of having the market share that would never go away—no imagination, no growth—until Jobs returned. Countrywide's problems far exceeded the solution of axing the CEO and, deservedly, failed as an independent business. BP's reputation has never really recovered and probably won't for decades.

And what of Wells Fargo? The timing on Stumpf's exit is a bit puzzling from a communications point of view. It didn't really solve the problems they have in this matter, although it did decompress the intensity of the criticism coming from, amongst other sources, Congress. Wells Fargo has years of reputational repair work to do with customers.

Ultimately, there's the argument that Stumpf's real duty to the organization, to shareholders, and to his own legacy, would have been to see the matter through to some kind of conclusion that addressed everything that was done, and corrected it, that got the organization back on a track of real reputational recovery. Look no further than Mary Barra of General Motors for that playbook.

Just Give Me One More Quarter, Please

American shareholders are feverishly near-term focused and take management to task for more than one bad quarterly performance. This same bias is moving cross-border to the UK and continental Europe as well. Management will always say it's focused on the long-term but has no choice but to address this short-termism, publicly, in earnings calls.

It's unfortunate when good CEOs have to give in to this kind of quarter-by-quarter pressure and sometimes drubbing. It gets amplified, with the stock taking the worst of it, when there's a failure to define and articulate a compelling long-term strategic vision and business plan for generating shareholder value. That essentially rolls up into a communications challenge, and opportunity. Doing it well takes a commitment, from the top, to communicating that vision and plan clearly, compellingly, and effectively. When the pain, for the stock, gets to a certain point as a result of failing in that communications task it can often be the tipping point for showing the CEO the door.

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Wrong Man Wrong Job

It doesn't happen often but when it does no one looks good: the appointment of a CEO who flames out in less than a year. The reasons vary but it's the board that bears responsibility for this. There is simply no credible way of positioning it without suffering, for some time, the slings and arrows that the board can't properly manage succession planning.

Right Man Wrong Role

In our crisis and litigation work, we've seen more than once the situation where the CEO had the ability to build a strong, thriving business but when a crisis hit also thought he or she could manage the news media *without* professional advice. That has rarely, if ever, worked out to the company's benefit (perhaps with the exception of Steve Jobs who had a Svengali like effect on journalists). This only compounds the CEO's problems in the crisis, needlessly, and if the situation is damaging enough to the company and its reputation, he'll be faulted for going outside his expertise. If the crisis itself doesn't lead to being fired, adding this infraction can accelerate the inevitable.

An Untimely Exit

It happens rarely but when it does there is no perfect way to deal with it: the sudden and untimely death of a CEO. Succession plans, at least on an interim basis, are usually in place but two forces can quickly work against the organization. First, unless the interim CEO was *intended* to succeed the CEO, and there was actual work of some kind to prepare him or her, it takes a lot to convince shareholders that he or she is the right person for the job. Second, strong CEOs occupy a lot of psychic mindshare in and outside the company. A previously selected interim CEO can, in time, fill that void with his or her own imprint, with the board's support.

Additional Resources

+ McKinsey & Company – CEO Transitions: The Science of Success
+ Linkedin: Managing the CEO Transtion
+ National Association of Corporate Directors
+ SpencerStuart: The Four Biggest CEO Succession Risks

MONTIETH & COMPANY'S MANAGEMENT ADVISORY COMMUNICATIONS SOLUTIONS

Montieth & Company has provided communications counsel on numerous CEO transitions and other key management changes. This work brings together or management advisory, issues and crisis management, investor relations, and media relations expertise.

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